

ORIGINAL

COMMISSIONERS
SUSAN BITTER SMITH - Chairman
BOB STUMP
BOB BURNS
DOUG LITTLE
TOM FORESE

OPEN MEETING ITE



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ARIZONA CORPORATION COMMISSION

DATE: MARCH 30, 2015

2015 MAR 30 P 3:30

DOCKET NO.: W-03511A-14-0304

AZ CORP COMMISSION
DOCKET CONTROL

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Teena Jibilian. The recommendation has been filed in the form of an Order on:

NAVAJO WATER CO., INC.
(RATES)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by 4:00 p.m. on or before:

APRIL 8, 2015

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Open Meeting to be held on:

APRIL 14, 2015 and APRIL 15, 2015

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602) 542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

Arizona Corporation Commission

DOCKETED

MAR 30 2015

DOCKETED BY

JC

A handwritten signature in dark ink, appearing to read "Jodi Jerich".
JODI JERICH
EXECUTIVE DIRECTOR

1200 WEST WASHINGTON STREET; PHOENIX, ARIZONA 85007-2927 / 400 WEST CONGRESS STREET; TUCSON, ARIZONA 85701-1347

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This document is available in alternative formats by contacting Shaylin Bernal, ADA Coordinator, voice phone number 602-542-3931, E-mail SABernal@azcc.gov.

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 **COMMISSIONERS**

3 SUSAN BITTER SMITH - Chairman
4 BOB STUMP
4 BOB BURNS
5 DOUG LITTLE
5 TOM FORESE

7 IN THE MATTER OF THE APPLICATION OF
8 NAVAJO WATER CO., INC. FOR THE
8 APPROVAL OF A RATE ADJUSTMENT.

DOCKET NO. W-03511A-14-0304

DECISION NO.

ORDER

10
11 Open Meeting
11 April 14 and 15, 2015
12 Phoenix, Arizona

13 **BY THE COMMISSION:**

14 Having considered the entire record herein and being fully advised in the premises, the
15 Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

16 **FINDINGS OF FACT**

17 **PROCEDURAL HISTORY**

18 1. On August 15, 2014, Navajo Water Co., Inc. ("Navajo") filed with the Arizona
19 Corporation Commission ("Commission") an application for a rate increase, based on a test year
20 ended June 30, 2014, which it supplemented with filings on August 26, 2014, September 10, 2014,
21 and September 30, 2014 (collectively, the "Rate Application"). Navajo attached to its September 30,
22 2014 supplemental filing a copy of the Customer Notice of the Rate Application it sent to its
23 customers. Twelve customers filed comments in opposition to the rate increase.

24 2. On September 10, 2014, the Commission's Utilities Division Staff ("Staff") filed a
25 Letter of Deficiency.

26 3. On October 10, 2014, Staff issued a letter indicating that Navajo's application had met
27 the sufficiency requirements of Arizona Administrative Code ("A.A.C.") R14-2-103 and classifying
28 Navajo as a Class D utility.

1 4. On October 20, 2014, Brooke Utilities Inc. ("Brooke") filed an Application for
2 Intervention.

3 5. On October 28, 2014, Navajo filed its Opposition to Brooke's Application for
4 Intervention.

5 6. On November 3, 2014, Brooke filed its Response to Navajo's Opposition.

6 7. On November 7, 2014, a Procedural Order was issued which allowed Brooke, if it
7 wished any further consideration of its Application to Intervene, to file a supplement to its
8 Application to Intervene, no later than November 17, 2014, that specifically indicated how and why
9 the terms and conditions of the May 31, 2013 Stock Purchase Agreement, in conjunction with
10 Navajo's current rate case filing, would directly and substantially affect Brooke.

11 8. On November 14, 2014, Brooke filed a Request for Extension to File Supplemental
12 Application to Intervene, requesting a revised filing deadline of November 24, 2014.

13 9. On December 19, 2014, Staff filed its Staff Report on Navajo's rate application.

14 10. On December 23, 2014, a Procedural Order was issued extending the deadline for
15 Brooke to file a supplement to its Application to Intervene to January 6, 2015.

16 11. On January 6, 2015, Brooke filed a Supplemental Application for Intervention. In that
17 filing, Brooke stated that it is directly and substantially affected by this rate proceeding because,
18 according to the confidential June 1, 2013 Stock Purchase Agreement ("Stock Purchase Agreement")
19 negotiated by Brooke and Navajo's parent JW Water Holdings, LLC ("JWWH") governing the sale
20 of Navajo to JWWH, the final price paid by JWWH for Navajo is to be based in part on the rate base
21 and operating expenses determined by the Commission on Navajo's rate application. Brooke stated
22 that the Stock Purchase Agreement required Navajo to file a rate application with the Commission on
23 or before July 1, 2014, using a test year ended December 31, 2013. According to Brooke, Brooke
24 and JWWH agreed to this condition "so that an objective mix of Navajo's operating expenses and
25 rate base partially owned by Brooke and partially owned by JWW during 2013 would best and most
26 fairly represent the actual incurred costs of the two holding companies during the period."

27 12. On January 12, 2015, Navajo filed its Response to Supplemental Application for
28 Intervention. Navajo stated its concern that Brooke might be allowed to broaden the issues in this

1 rate case to include Brooke's breach of contract claims related to the Stock Purchase Agreement. In
2 its Response to Supplemental Application for Intervention, Navajo contended that the sole basis for
3 Brooke's asserted interest in this proceeding is the Stock Purchase Agreement between Brooke and
4 JWWH, a contract which Navajo argues that the Commission is legally prohibited from interpreting.¹
5 Navajo argued that no statute, rule or order required the filing of this rate case or the selection of a
6 specific test year, and that the Commission cannot consider or order an alternative test year or rate
7 base, as Brooke claims is required by the Stock Purchase Agreement. Navajo argued that Brooke's
8 supplemental filing supported Navajo's request that Brooke's Application for Intervention be denied.

9 13. Also on January 12, 2015, Staff filed its Opposition to Intervention. Staff stated that
10 Brooke is not a ratepayer of Navajo, and contended that Brooke did not demonstrate how it would be
11 directly affected by this proceeding or that the issues Brooke raises would not unduly broaden the
12 scope of the proceeding. Staff stated that the Commission does not regulate or approve stock
13 purchase agreements, and argued that the contractual dispute between Brooke and JWWH would be
14 best resolved in another forum, such as Superior Court, and not in a Commission ratemaking
15 proceeding. Staff recommended that Brooke's Application to Intervene be denied.

16 14. On January 26, 2015, counsel for Navajo filed a Notice of Change of Address.

17 15. On February 2, 2015, a Procedural Order was issued granting intervention to Brooke,
18 effective upon the filing of a notice of appearance by counsel or the filing of evidence of a board
19 resolution authorizing a specifically named officer of the corporation to represent it, which
20 demonstrates compliance with the requirements of Arizona Supreme Court rules. The Procedural
21 Order stated that while Brooke is not a customer of Navajo, Navajo did not dispute that Brooke is a
22 party to a voluntarily negotiated private Stock Purchase Agreement with JWWH; did not dispute that
23 the Stock Purchase Agreement specified the test year pursuant to which Navajo would file a rate
24 case; and did not dispute that due to the terms of the Stock Purchase Agreement, the purchase price of
25 Navajo would be affected by the outcome of this proceeding. The Procedural Order stated that
26 assuming Brooke's alleged facts in regard to the Stock Purchase Agreement to be true, Brooke
27

28 ¹ Navajo cited to *Gen. Cable Corp. v. Citizens Utilities Co.*, 27 Ariz.App. 381, 555 P.2d 350 (1976).

1 demonstrated that it would be directly and substantially affected by these proceedings, and that based
2 on its claim that it will be affected by the outcome of this proceeding, Brooke would be allowed to
3 intervene and participate in this ratemaking proceeding in a manner that would not unduly broaden its
4 scope. The Procedural Order stated that this is not a complaint proceeding, Brooke would not be
5 allowed to litigate its contractual dispute with Navajo's shareholder in this rate proceeding, and any
6 dispute between Brooke and JWWH pertaining to their private agreement is outside the scope of this
7 rate proceeding.

8 16. On February 5, 2015, a Procedural Order was issued correcting an incorrect citation in
9 the February 2, 2015 Procedural Order.

10 17. On February 10, 2015, Brooke filed a Notice of Filing Board Resolution Authorizing
11 Representation to which was attached a copy of a January 31, 2015 resolution of Brooke's Board of
12 Directors specifically naming Robert T. Hardcastle as the individual authorized to represent it before
13 the Commission in this docket.

14 18. On February 11, 2015, Navajo filed a Response to the Staff Report in which it
15 contested four of the recommendations in the Staff Report.

16 19. On February 13, 2015, a Procedural Order was issued setting a procedural conference
17 for the purpose of discussing the processing of the Rate Application given the existence of contested
18 issues.

19 20. On February 20, 2014, a procedural conference convened as scheduled. Navajo and
20 Staff appeared through counsel. Brooke did not appear.² Navajo and Staff indicated that they had
21 reached verbal agreement on all revenue requirement related contested issues Navajo raised in its
22 Response to the Staff Report, that Staff planned to docket a filing within a week addressing the issues
23 in Navajo's Response to the Staff Report, and that Navajo planned to docket a responsive filing
24 thereto. Navajo agreed to a suspension of the Commission's timeclock rules in order to allow
25 Commission consideration of a Recommended Order at the Commission's scheduled April 14 and
26 15, 2015 Open Meeting.

27 _____
28 ² Brooke did not make any additional filings indicating disagreement with the supplemental filings made by Staff or the Company.

1 21. On February 27, 2015, Staff filed a Supplemental Staff Report.

2 22. On March 5, 2015, Navajo filed a Response to the Supplemental Staff Report. Navajo
3 stated that with the exception of one issue, Navajo is in agreement with Staff's updated
4 recommendations in regard to Navajo's Rate Application. Navajo and Staff continued to disagree on
5 whether the Company should be required to file Best Management Practices ("BMPs") Tariffs.

6 23. On March 18, 2015, Staff filed its Addendum to Supplemental Staff Report, indicating
7 that Navajo's three water systems have become compliant with the Arizona Department of Water
8 Resources ("ADWR") requirements.

9 24. Due to the timing of Navajo's Response to the Staff Report, and the time taken for the
10 parties to resolve contested issues in this case, on March 30, 2015, a Procedural Order was issued
11 extending the timeclock in this matter pursuant to A.A.C. R14-2-103(B)(11)(e), as agreed to by
12 Navajo, for the time necessary to allow consideration of the Rate Application at the Commission's
13 Open Meeting scheduled for April 14 and 15, 2015.

14 **BACKGROUND**

15 25. Navajo is an Arizona "C" corporation engaged in the business of providing water
16 utility service to approximately 305 residential customers in Navajo County, in the vicinity of Show
17 Low.

18 26. Navajo is a wholly-owned subsidiary of JWWH. JWWH purchased Navajo from
19 Brooke through the Stock Purchase Agreement. The Stock Purchase Agreement also included
20 JWWH's purchase from Brooke of Payson Water Co., Inc. ("Payson") and Tonto Basin Water Co.,
21 Inc. ("Tonto Basin"). Tonto Basin currently has a rate application pending in Docket No. W-
22 03515A-0310, with a hearing set to commence on April 20, 2015.

23 27. Navajo operates three separate water systems: Summer Pines, Laguna Estates, and
24 Chaparral Pines. The Summer Pines system is two miles south of Show Low, the Laguna Estates
25 system is seven miles northeast of Show Low, and the Chaparral Pines system is four miles west of
26 Show Low. The Commission granted the Certificates of Convenience and Necessity ("CC&Ns")
27 now held by Navajo in Decision No. 52520 (October 6, 1981) (Summer Pines), Decision No. 53766
28 (October 5, 1983) (Laguna Estates), and Decision No. 56485 (March 17, 1989) (Chaparral Pines).

1 28. Staff inspected Navajo's plant facilities on October 22, 2014. According to the Staff
2 Engineering Report, the Summer Pines system has two wells, one 40,000 gallon storage tank, two
3 booster pumps, one 2,000 gallon pressure tank, a distribution system with 40,330 feet of distribution
4 pipes, and 243 5/8 x 3/4-inch meters. Staff reported that water loss on this system is 6.3 percent,
5 within the acceptable limit of 10 percent. Based on Navajo's reported test year water use data, Staff
6 concluded that the Summer Pines system well production capacity of 39 gallons/minute ("GPM") and
7 a storage capacity of 40,000 gallons is adequate to serve the present customer base and reasonable
8 growth. Staff stated, however, that the Summer Pines storage tank has deteriorated beyond repair and
9 requires replacement.

10 29. The Laguna Estates system has one well, one 10,000 gallon storage tank, one booster
11 pump, one pressure tank, a distribution system with 8,808 feet of distribution pipes, and 33 5/8 x 3/4-
12 inch meters. Staff reported that water loss on this system is 1.4 percent, within the acceptable limit of
13 10 percent. Based on Navajo's reported test year water use data, Staff concluded that the Laguna
14 Estates system well production capacity of 25 GPM and a storage capacity of 10,000 gallons is
15 adequate to serve the present customer base and reasonable growth.

16 30. The Chaparral Pines system has one well, one 20,000 gallon storage tank, one booster
17 pump, one pressure tank, a distribution system with 7,990 feet of distribution pipes, and 87 5/8 x 3/4-
18 inch meters. Staff reported that water loss on this system is 8.2 percent, within the acceptable limit of
19 10 percent. Based on Navajo's reported test year water use data, Staff concluded that the Chaparral
20 Pines system well production capacity of 38 GPM and a storage capacity of 20,000 gallons is
21 adequate to serve the present customer base and reasonable growth.

22 SUMMARY OF RATE APPLICATION

23 31. The Commission approved Navajo's current rates and charges in Decision No. 62631
24 (March 6, 2000).

25 32. In its Rate Application, Navajo proposed rates that would increase revenue by
26 \$69,627, or 70.16 percent, over test year revenues of \$99,246 to \$168,873, which would result in an
27 operating income of \$15,628. This would equate to a 12.00 percent rate of return on the Company-
28

1 proposed fair value rate base ("FVRB"), which is also its original cost rate base ("OCRB"),³ of
 2 \$130,225. The rates the Company proposed in the Rate Application would yield a positive cash flow
 3 of \$30,539.

4 33. Under the rates proposed in the Rate Application, the typical residential monthly bill,⁴
 5 with median use of 1,761 gallons, would increase from \$22.35 to \$39.60, an increase of \$17.25, or
 6 77.2 percent.

7 34. Staff recommends an adjusted OCRB, equal to FVRB, of \$117,816, and a 10.00
 8 percent rate of return, for an increase in revenue of \$67,341, or 67.85 percent, over test year revenues
 9 of \$99,246 to \$166,587, and an Operating Income of \$11,778. Staff's recommended rates would
 10 yield a positive cash flow of \$34,397.

11 35. Under the Staff-recommended rate design, a typical residential monthly bill, with
 12 median use of 1,761 gallons, would increase from \$22.35 to \$35.22, an increase of \$12.87, or 57.6
 13 percent.

14 36. The water rates and charges for Navajo at present, as proposed by Navajo in the Rate
 15 Application, and as recommended by Staff in the Supplemental Staff Report, are as follows:

16
 17 **MONTHLY USAGE CHARGE:**

	Present Rates	Rate Application	Staff Recommended
19 5/8 x 3/4-Inch Meter	\$ 16.19	\$ 33.00	\$ 27.30
20 3/4-Inch Meter	24.29	49.50	43.80
21 1-Inch Meter	40.48	82.50	76.80
21 1-1/2-Inch Meter	80.95	165.00	159.30
22 2-Inch Meter	129.52	264.00	258.30
22 3-Inch Meter	242.85	528.00	522.30
23 4-Inch Meter	404.75	825.00	819.30
23 6-Inch Meter	809.50	1,650.00	1,644.30

24 **COMMODITY RATES:**

25 **(Per 1,000 Gallons)**

26 **5/8 x 3/4" Meter - Residential**

27
 28 ³ The Company proposed that its OCRB be used as its FVRB for purposes of setting rates in this proceeding.

⁴ All test year residential customers had 5/8 x 3/4-inch meters.

1	All Usage	\$3.50		
	0 - 4,000 Gallons		\$3.75	
2	4,001 to 10,000 Gallons		4.70	
	Over 10,000 Gallons		5.55	
3	0 - 2,000 Gallons			\$4.50
	2,001 to 8,000 Gallons			6.40
4	Over 8,000 Gallons			7.69
5	<u>3/4" Meter - Residential</u>			
6	All Usage	\$3.50		
	0 to 10,000 Gallons		\$4.70	
7	Over 10,000 Gallons		5.55	
	0 - 2,000 Gallons			\$4.50
8	2,001 to 8,000 Gallons			6.40
9	Over 8,000 Gallons			7.69
10	<u>3/4" Meter - Commercial & Industrial</u>			
11	All Usage	\$3.50		
	0 to 10,000 Gallons		\$4.70	
12	Over 10,000 Gallons		5.55	
	0 - 2,000 Gallons			\$4.50
13	2,001 to 8,000 Gallons			6.40
14	Over 8,000 Gallons			7.69
15	<u>1" Residential, Commercial & Industrial</u>			
16	All Usage	\$3.50		
	0 to 10,000 Gallons		\$4.70	
17	Over 10,000 Gallons		5.55	
	0 - 20,000 Gallons			\$6.40
18	Over 20,000 Gallons			7.69
19	<u>1 1/2" Residential, Commercial & Industrial</u>			
20	All Usage	\$3.50		
	0 to 10,000 Gallons		\$4.70	
21	Over 10,000 Gallons		5.55	
	0 - 50,000 Gallons			\$6.40
22	Over 50,000 Gallons			7.69
23	<u>2" Residential, Commercial & Industrial</u>			
24	All Usage	\$3.50		
	0 to 10,000 Gallons		\$4.70	
25	Over 10,000 Gallons		5.55	
	0 - 80,000 Gallons			\$6.40
26	Over 80,000 Gallons			7.69
27				
28				

3" Residential, Commercial & Industrial

All Usage	\$3.50		
0 to 10,000 Gallons		\$4.70	
Over 10,000 Gallons		5.55	
0 - 150,000 Gallons			\$6.40
Over 150,000 Gallons			7.69

4" Residential, Commercial & Industrial

All Usage	\$3.50		
0 to 10,000 Gallons		\$4.70	
Over 10,000 Gallons		5.55	
0 - 300,000 Gallons			\$6.40
Over 300,000 Gallons			7.69

6" Residential, Commercial & Industrial

All Usage	\$3.50		
0 to 10,000 Gallons		\$4.70	
Over 10,000 Gallons		5.55	
0 - 500,000 Gallons			\$6.40
Over 500,000 Gallons			7.69

	<u>Present</u>	<u>Company Proposed (Rate Application)</u>	<u>Staff Proposed</u>
<u>SERVICE CHARGES:</u>			
Establishment	\$25.00	\$25.00	\$25.00
Establishment (After Hours)	35.00	35.00	0
Reconnection (Delinquent)	20.00	20.00	20.00
Reconnection (After Hours)	30.00	30.00	0
After Hours Service Charge	0	0	35.00
Meter Test (If Correct)	20.00	25.00	25.00
Meter Re-Read (If Correct)	10.00	25.00	25.00
NSF Check	17.50	17.50	17.50
Deposit	*	*	*
Deposit Interest (Per Year)	**	**	**
Deferred Payment (Per Month)	1.50%	1.50%	***
Late Payment Penalty - per month	1.50%	1.50%	***
Re-establishment (Within 12 months)	**	**	****

* Per Commission Rule A.A.C. R14-2-403(B)(7).

** Per Commission Rule A.A.C. R14-2-403(B)(3).

*** 1.5% of unpaid monthly balance.

**** Months off system times the monthly minimum A.A.C. R14-2-403(D).

In addition to the collection of regular rates, the utility will collect from its customers a proportionate share of any privilege, sales, use, and franchise tax, per Commission rule A.A.C. 142-409D(5).

SERVICE LINE AND METER INSTALLATION CHARGES:
(Refundable Pursuant to A.A.C. R14-2-405)

	Current	Company Proposed	Staff Recommended	Staff Recommended	Staff Recommended
	<u>Total Charges</u>	<u>Total Charges</u>	<u>Service Line</u>	<u>Meter</u>	<u>Total Charges</u>
5/8" x 3/4" Meter	\$ 430.00	\$ 430.00	\$ 415.00	\$ 105.00	\$ 520.00
3/4" Meter	480.00	480.00	415.00	205.00	620.00
1" Meter	550.00	550.00	465.00	265.00	730.00
1-1/2" Meter	775.00	775.00	520.00	475.00	995.00
2" Meter	1,305.00	1,305.00	800.00	995.00	1,795.00
3" Meter	1,815.00	1,815.00	1,015.00	1,620.00	2,635.00
4" Meter	2,860.00	2,860.00	1,430.00	2,570.00	4,000.00
6" Meter	5,275.00	5,275.00	2,150.00	4,925.00	7,075.00

RATE BASE

37. The Company proposed a rate base of \$130,225. Staff recommended adjustments to Navajo's proposed Plant in Service, Contributions in Aid of Construction ("CIAC"), CIAC Amortization, and Working Capital. Based on its recommended adjustments, Staff proposed a reduction to rate base of \$12,409, for a rate base of \$117,816.

Plant in Service

38. Navajo proposed plant in service of \$443,062. Staff recommended adjustments increasing plant in service by \$2,227, for total plant in service of \$445,289. Staff's recommended adjustments include an increase to Electric Pumping Equipment of \$1,831, to \$115,264 from \$113,433, and an increase to Meters and Meter Installations of \$396, to \$44,957 from \$44,561. Staff also recommended changes to the balances in Navajo's Distribution Reservoirs and Standpipes, Storage Tank, and Pressure Tank accounts in order to properly record plant balances. While Staff's recommended changes to those account balances have a zero net impact on rate base, they will result in the appropriate application of depreciation rates to the affected plant.

CIAC

39. The Company proposed CIAC of \$6,428. Staff recommended CIAC of \$48,699. Staff recommended that \$42,271 of unsupported plant be treated as CIAC. Staff stated that with the exception of plant additions made during the test year under JWWH's ownership, Navajo does not have access to documentation supporting plant additions since the 1998 test year of Navajo's previous

1 rate case. Staff recommends that 30 percent of unsupported plant from 1999 be treated as CIAC for
2 ratemaking purposes, consistent with the Commission's ratemaking treatment of similarly
3 unsupported plant for Navajo's affiliate Payson in Decision No. 74567 (June 20, 2014).

4 **CIAC Amortization**

5 40. The Company proposed CIAC Amortization of \$1,050. Consistent with its
6 recommended adjustments to CIAC, Staff recommended CIAC Amortization of \$29,702.
7

8 **Working Capital**

9 41. Navajo proposed Working Capital of \$15,265. Navajo calculated its Working
10 Capital using the formula method, adding 1/24 of Purchased Power Expense and 1/8 of Operations
11 and Maintenance Expense. Staff accepted Navajo's formula methodology, but recommended a
12 reduction of \$1,017, which reflects Staff's recommended level of Operations and Maintenance
13 Expense.

14 **FVRB Conclusion**

15 42. In its March 3, 2015 Response to Supplemental Staff Report, Navajo indicated
16 agreement with Staff's recommended adjustments to Rate Base. Navajo's FVRB is determined to be
17 \$117,816.
18

19 **OPERATING INCOME**

20 **Operating Revenue**

21 43. Navajo's Rate Application proposed Test Year Operating Revenue of \$99,246. Staff
22 proposed no adjustment. Navajo's Test Year Operating Revenue is determined to be \$99,246.

23 **Operating Expenses**

24 44. Navajo's Rate Application proposed Test Year Operating Expense of \$138,458. Staff
25 recommended adjustments that would increase Test Year Operating Expense by \$243, to \$138,701.

26 **Cost Allocation Methodology**

27 45. JWWH provides services such as water system operations, system maintenance, meter
28 reading, record keeping, compliance filings and reporting, accounts payable, payroll, human

1 resources, and billing to its regulated utility subsidiaries Navajo, Payson, and Tonto Basin. Staff
2 stated that currently, JWWH charges all such indirect costs incurred on behalf of each of its
3 subsidiary utilities monthly, based on the prior month's customer count for each utility. Staff stated
4 that on average for the test year, Navajo was allocated 13.19 percent, Payson was allocated 48.10
5 percent, and Tonto Basin was allocated 38.71 percent.

6 46. Staff recommended that Navajo's allocation of service costs be based not solely on
7 its customer count, but instead on a weighting of four separate factors. Staff believes its
8 recommended 4-factor allocation methodology would more accurately reflect all the cost drivers of
9 the indirect expenses. Staff recommended the use of the four following factors, equally weighted:
10 (1) customer counts; (2) net plant in service; (3) operating expenses; and (4) number of systems.
11 Staff stated that these factors have a direct impact on each subsidiary's share of expenses incurred by
12 JWWH to provide shared services to its subsidiary utilities.

13 47. Staff recommended adjustments to Navajo's Operating Expense accounts to reflect
14 use of Staff's recommended 4-factor allocation method as follows: a reduction of \$407 to Chemical
15 Expense, an increase of \$1,071 to Outside Services Expense, a reduction of \$538 to Rents Expense,
16 and a reduction of \$418 to Transportation Expense.

17 **Salaries and Wages Expense**

18 48. Navajo's Rate Application proposed \$15,738 in Salaries and Wages Expense. Staff
19 recommended an adjustment removing \$6,489 of Wages and Salaries Expense, for a total of \$9,249
20 in allocated Salaries and Wages Expense. In the Staff Report, Staff had recommended \$0 in Salaries
21 and Wages Expense, based on its belief that all Salaries and Wages Expense was included in Outside
22 Services Expense. In its Response to the Staff Report, Navajo disagreed. In the Supplemental Staff
23 Report, Staff partially accepted Navajo's position, and modified its recommendation to a total of
24 \$9,249 in allocated Salaries and Wages Expense. In the Supplemental Staff Report, Staff stated that
25 its adjustment reflects the time spent by the two system operators working specifically on the Navajo
26 water systems using Staff's recommended 4-factor allocation methodology, and also removes \$3,638
27 that Staff stated was also included in the monthly management fee included in Outside Services
28 Expense.

Water Testing Expense

49. The Rate Application proposed \$2,738 in Water Testing Expense. Staff recommended an adjustment reducing Water Testing Expense by \$359, for a total of \$2,379 in Water Testing Expense.

Depreciation Expense

50. In its Rate Application, the Company proposed Depreciation Expense of \$14,911. Staff recommended an increase of \$7,708, for a total of \$22,619, which reflects application of Staff's recommended depreciation rates to Staff's recommended depreciable plant balances, offset by Staff's recommended amortization of CIAC.

Property Tax Expense

51. In its Rate Application, Navajo proposed Property Tax Expense using an effective property tax rate of 11.6386 percent. Staff had recommended an adjustment in its Staff Report recalculating Property Tax Expense using an effective property tax rate of 7.326 percent, but in the Supplemental Staff Report agreed with the Company that Navajo's effective property tax rate is 11.6386 percent, and recommends Property Tax Expense of \$4,182.

Operating Income Conclusion

52. In its March 3, 2015 Response to Supplemental Staff Report, Navajo indicated agreement with Staff's recommended adjustments to Operating Income. Navajo's Adjusted Test Year Operating Expense is determined to be \$138,701.

53. Navajo's Test Year Operating Revenue was \$99,246. With Adjusted Test Year Operating Expense of \$138,701, Navajo's Adjusted Test Year Operating Income is determined to be (\$39,455).

AUTHORIZED INCREASE

54. In its March 3, 2015 Response to Supplemental Staff Report, Navajo indicated agreement with Staff regarding the components of the revenue requirement, which includes a 10.00 percent rate of return, and with Staff's proposed rates.

55. A 10.00 percent rate of return on Navajo's FVRB of \$117,816 is just and reasonable

1 for ratemaking purposes in this proceeding.

2 56. Applying a 10.00 percent rate of return to Navajo's FVRB of \$117,816 produces a
3 required Operating Income of \$11,781. With the adjustments adopted herein, Navajo's Adjusted Test
4 Year Operating Income is (\$39,455). With the necessary increases to Property Tax Expense and
5 Income Tax Expense, Navajo's revenue requirement is determined to be \$166,587. The required
6 increase in gross annual revenues for Navajo is \$67,341, for an approximate 67.85 percent increase
7 over test year adjusted revenues.

8 **RATE DESIGN**

9 57. The Company's current rate structure has a flat commodity rate. The Rate
10 Application's proposed rate structure does away with the flat commodity rate. It includes a monthly
11 minimum charge that increases by meter size and an inverted three-tier commodity rate with break-
12 over points at 4,000 and 10,000 gallons for all customers. Staff agrees with the Company that the flat
13 commodity rate should be replaced with inverted tier rates. Staff recommends, however, a rate
14 structure with a lower monthly minimum charge that places more of the revenue increase in the
15 commodity rates. Staff recommended lower break-over points, of 2,000 and 8,000 gallons for 5/8 x
16 3/4-inch meter customers, because customers will be moving from a flat rate commodity charge to a
17 tiered rate commodity charge structure.

18 58. Staff agrees with the Company's proposed service charge with one exception. Staff
19 recommends that the Company's proposed Service Establishment (After Hours) and Service Re-
20 establishment (After Hours) charges be replaced with an After Hours Service charge of \$35.00 to be
21 added to service charges for services when customers request that the Company perform tariffed
22 services after normal business hours.

23 59. According to its March 3, 2015 Response to Supplemental Staff Report, Navajo does
24 not disagree with Staff's rate design recommendations. Staff's rate design recommendations are
25 reasonable and will be adopted.

26 60. Under the rates adopted herein, a typical residential monthly bill, with median use of
27 1,761 gallons, will increase from \$22.35 to \$35.22, an increase of \$12.87, or 57.6 percent.

28 ...

REPLACEMENT OF STORAGE TANK

61. Staff stated in its Engineering Report that the storage tank in use in Navajo's Summer Pines system has deteriorated beyond repair and requires replacement. Staff recommends that the Company replace the tank. Navajo responded that Staff recommended no financial mechanism to pay for the costly upgrade, and proposed a phase-in schedule for the new storage. In the Supplemental Staff Report, Staff recommended that a phase-in schedule be ordered, but that the installation schedule be more expedited than that proposed by the Company. Staff recommended that the Company file with Docket Control as a compliance item in this docket, within sixty days of the effective date of this Decision, its Summer Pines 40,000 gallon storage tank replacement plan. Staff further recommended that the Company be ordered to install Phase One and file with Docket Control as a compliance item in this docket, within six months of this Decision, a copy of the Arizona Department of Environmental Quality ("ADEQ") Approval of Construction ("AOC") for the Summer Pines first new storage tank with a minimum capacity of 20,000 gallons. Staff further recommended that the Company be ordered to install Phase Two and file with Docket Control as a compliance item in this docket, within 12 months of this Decision, a copy of the ADEQ AOC for the Summer Pines second new storage tank with a minimum capacity of 20,000 gallons.

62. In its March 3, 2015 Response to Supplemental Staff Report, Navajo indicated agreement with Staff's recommendations in regard to replacing the Summer Pines storage tank.

63. Staff's recommendations in regard to replacing Navajo's Summer Pines storage tank are reasonable and will be adopted.

BMP TARIFFS

64. In its Staff Report, Staff recommended that the Company be ordered to implement three BMP tariffs. In its Response to the Staff Report, Navajo indicated disagreement with this Staff recommendation, arguing that Navajo is not located within an AMA; that Staff is recommending that the Commission impose requirements that are not otherwise required by Arizona law; and that there is no extra revenue available for the implementation of BMPs. In its Supplemental Staff Report, Staff continued to recommend the BMP requirement, and in its Response to Supplemental Staff Report, Navajo continued to object to the BMP requirement.

1 65. The three BMPs Staff recommends are Water Waste Investigations and Information
2 Tariff – BMP 3.8, Public Education Program Tariff, and Water System Tampering Tariff – BMP 5.2.
3 Staff recommended that Navajo be required to file those tariffs, and that they be approved in this
4 proceeding. Staff further recommended that the Company be ordered to notify its customers, in a
5 form acceptable to Staff, of the BMP tariffs authorized in his proceeding and their effective date by
6 means of either an insert in the next regularly scheduled billing or by a separate mailing and to
7 provide copies of the BMP tariffs to any customer upon request. Staff recommended that the
8 Company be allowed to request cost recovery of actual expenses associated with the implemented
9 BMPs in its next general rate application.

10 66. In light of the water losses noted in Findings of Fact Nos. 28 and 30 above, and in
11 recognition of the relatively low costs associated with the three recommended BMP tariffs in
12 comparison to BMP Tariffs which are more costly to implement, we find Staff's recommendations
13 reasonable.

14 67. We note that Navajo's affiliate Tonto Basin currently has a rate application pending in
15 Docket No. W-03515A-14-0310, with a hearing set to commence on April 20, 2015. Tonto Basin
16 has reached a Settlement Agreement with Staff in that proceeding, pursuant to which Tonto Basin,
17 which like Navajo, is not located in an AMA, has agreed to implement the following three BMPs:
18 Public Education Program Tariff, Customer High Water Use Inquiry Resolution Tariff – BMP 3.6,
19 and Customer High Water Use Notification Tariff – BMP 3.7. Because Navajo's affiliate Tonto
20 Basin has agreed to implement these three tariffs, there may be an opportunity for cost savings if
21 Navajo implements the same tariffs as Tonto Basin. For that reason, we will order Navajo to choose
22 any three of the BMP tariffs from the five BMP tariffs attached hereto as Exhibit 1. Exhibit 1
23 includes the three BMPs recommended by Staff in this case, one of which Navajo's affiliate Tonto
24 Basin has agreed to adopt, and two additional BMPs which Tonto Basin has also agreed to adopt.

25 **COMPLIANCE ISSUES**

26 68. Navajo has Commission-approved Backflow Prevention and Curtailment Plan tariffs.
27
28

69. Staff stated that Navajo has no outstanding Commission compliance issues, is in good standing with the Commission's Corporations Division, and is current on its property tax and sales tax payments.

70. According to Staff, ADEQ reports that Navajo's three water systems are currently delivering water that meets applicable water quality standards.

71. At the time Staff prepared its Staff Report, ADWR had determined that all three Navajo water systems were not in compliance with ADWR requirements because Navajo had failed to file its ADWR Annual Reports and System Water Plans. Staff therefore recommended that new rates approved in this case not become effective until Navajo became compliant with ADWR requirements. Subsequently, Staff's March 18, 2015 addendum to the Supplemental Staff Report stated that updated Water Provider Compliance Reports from ADWR indicated that Navajo's three water systems are currently compliant with ADWR requirements.

STAFF RECOMMENDATIONS

72. Staff recommended approval of its recommended rates and charges.

73. Staff also recommended the following:

- that the Commission approve the Staff-recommended rates and charges as shown in Staff's Supplemental Schedule BAB-4;
- that in the future, the Company should be charged directly for expenses which are being tracked separately at this time, such as the salaries and wages of the two system operators, chemicals, water testing, bad debts, etc. rather than these expenses being included in the management fee/allocation from JWWH;
- that the Company use a 4-factor allocation to charge indirect costs;
- that the new rates approved in this case not be effective until the first day of the month after the Company files with Docket Control, as a compliance item in this docket, documentation from ADWR indicating that Navajo's three water systems are compliant with departmental requirements governing water providers and/or community water systems;⁵
- that Navajo be ordered to use the depreciation rates listed in Table B of Staff's Engineering report;
- that Navajo be ordered to use Staff's recommended service line and meter installation charges appearing in Table C of Staff's Engineering Report;

⁵ As indicated above, Staff indicated in its Addendum to Supplemental Staff Report on March 18, 2015 that Navajo's three water systems are currently compliant with ADWR requirements. The requirement for this Staff recommendation has been satisfied.

- that the BMPs included in attachment A to Staff's Engineering report be approved. Staff further recommended that the Company be ordered to notify its customers, in a form acceptable to Staff, of the BMP tariffs authorized in this proceeding and their effective date by means of either an insert in the next regularly scheduled billing or by a separate mailing and to provide copies of the BMP tariffs to any customer upon request. Staff recommended that the Company be allowed to request cost recovery of actual expenses associated with the implemented BMPs in its next general rate application.
- The Company file with Docket Control as a compliance item in this docket, within sixty days of the effective date of this Decision, its Summer Pines 40,000 gallon storage tank replacement plan. Staff further recommended that the Company be ordered to install Phase One and file with Docket Control as a compliance item in this docket, within six months of this Decision, a copy of the ADEQ Approval of Construction for the Summer Pines first new storage tank with a minimum capacity of 20,000 gallons. Staff further recommended that the Company be ordered to install Phase Two and file with Docket Control as a compliance item in this docket, within 12 months of this Decision, a copy of the ADEQ Approval of Construction for the Summer Pines second new storage tank with a minimum capacity of 20,000 gallons.

CONCLUSIONS

74. Staff's recommendations as set forth in Findings of Fact No. 73 are reasonable and should be adopted, except that Navajo should be allowed to choose for implementation any three BMPs from the five BMPs included in Exhibit 1.

CONCLUSIONS OF LAW

1. Navajo is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-250 and 40-251.

2. The Commission has jurisdiction over Navajo and the subject matter of the Rate Application.

3. Notice of the Rate Application was provided in the manner prescribed by law.

4. The rates and charges authorized herein are just and reasonable and should be approved without a hearing.

5. Staff's recommendations as set forth in Findings of Fact No. 73 are reasonable and should be adopted, except that Navajo should be allowed to choose for implementation any three BMPs from the five BMPs included in Exhibit 1.

ORDER

IT IS THEREFORE ORDERED that Navajo Water Co., Inc. is hereby directed to file with Docket Control, as a compliance item in this docket, within 14 days, revised rate schedules setting

forth the following rates and charges:

MONTHLY USAGE CHARGES:

5/8 x 3/4-Inch Meter	\$ 27.30
3/4-Inch Meter	43.80
1-Inch Meter	76.80
1 1/2-Inch Meter	159.30
2-Inch Meter	258.30
3-Inch Meter	522.30
4-Inch Meter	819.30
6-Inch Meter	1,644.30

COMMODITY CHARGES:

(Per 1,000 Gallons)

5/8 x 3/4 & 3/4" Meter - Residential:

0 - 2,000 Gallons	\$4.50
2,001 to 8,000 Gallons	6.40
Over 8,000 Gallons	7.69

3/4" Meter - Commercial & Industrial

0 - 2,000 Gallons	\$4.50
2,001 to 8,000 Gallons	6.40
Over 8,000 Gallons	7.69

1" Residential, Commercial & Industrial

0 - 20,000 Gallons	\$6.40
Over 20,000 Gallons	7.69

1 1/2" Residential, Commercial & Industrial

0 - 50,000 Gallons	\$6.40
Over 50,000 Gallons	7.69

2" Residential, Commercial & Industrial

0 - 80,000 Gallons	\$6.40
Over 80,000 Gallons	7.69

3" Residential, Commercial & Industrial

0 - 150,000 Gallons	\$6.40
Over 150,000 Gallons	7.69

4" Residential, Commercial & Industrial

0 - 300,000 Gallons	\$6.40
Over 300,000 Gallons	7.69

6" Residential, Commercial & Industrial

0 - 500,000 Gallons	\$6.40
Over 500,000 Gallons	7.69

...

...

...

SERVICE CHARGES:

Establishment	\$25.00
Reconnection (Delinquent)	20.00
After Hours Service Charge	35.00
Meter Test (If Correct)	25.00
Meter Re-Read (If Correct)	25.00
NSF Check	17.50
Deposit	*
Deposit Interest (Per Year)	*
Re-establishment (Within 12 months)	**
Deferred Payment (Per Month)	1.50%
Late Payment Charge (Per Month)	1.50%

* Pursuant to A.A.C. R14-2-403(B).

** Months off system times the monthly minimum pursuant to A.A.C. R14-2-403(D).

In addition to the collection of regular rates, the utility will collect from its customers a proportionate share of any privilege, sales, use, and franchise tax, per Commission Rule A.A.C. 14-2-409D(5).

SERVICE LINE AND METER INSTALLATION CHARGES:

(Refundable Pursuant to A.A.C. R14-2-405)

	<u>Service Line</u>	<u>Meter</u>	<u>Total Charges</u>
5/8" x 3/4" Meter	\$415.00	\$105.00	\$520.00
3/4" Meter	415.00	205.00	620.00
1" Meter	465.00	265.00	730.00
1-1/2" Meter	520.00	475.00	995.00
2" Meter	800.00	995.00	1,795.00
3" Meter	1,015.00	1,620.00	2,635.00
4" Meter	1,430.00	2,570.00	4,000.00
6" Meter	2,150.00	4,925.00	7,075.00

IT IS FURTHER ORDERED that the above rates and charges shall be effective for all service provided on and after May 1, 2015.

IT IS FURTHER ORDERED that Navajo Water Co., Inc. shall notify its customers of the rates and charges authorized herein and their effective date, in a form acceptable to the Commission's Utilities Division Staff, by means of an insert in its next regularly scheduled billing.

IT IS FURTHER ORDERED that, in addition to collection of its regular rates and charges, Navajo Water Co., Inc. shall collect from its customers a proportionate share of any privilege, sales or use tax per A.A.C. R14-2-409(D).

IT IS FURTHER ORDERED that Navajo Water Co., Inc. shall in the future be charged directly for expenses which are being tracked separately at this time, such as the salaries and wages

1 of the two system operators, chemicals, water testing, bad debts, etc. rather than by means of a
2 management fee or allocation from its parent company.

3 IT IS FURTHER ORDERED that Navajo Water Co., Inc. shall in the future be charged for
4 indirect costs incurred on its behalf by its parent company by means of Staff's recommended 4-factor
5 allocation to charge indirect costs.

6 IT IS FURTHER ORDERED that Navajo Water Co., Inc. shall file with Docket Control as a
7 compliance item in this docket, within sixty days of the effective date of this Decision, its Summer
8 Pines 40,000 gallon storage tank replacement plan.

9 IT IS FURTHER ORDERED that Navajo Water Co., Inc. shall install Phase One, and file
10 with Docket Control as a compliance item in this docket, within six months of this Decision, a copy
11 of the ADEQ Approval of Construction for the Summer Pines first new storage tank with a minimum
12 capacity of 20,000 gallons.

13 IT IS FURTHER ORDERED that Navajo Water Co., Inc. shall install Phase Two, and file
14 with Docket Control as a compliance item in this docket, within 12 months of this Decision, a copy
15 of the ADEQ Approval of Construction for the Summer Pines second new storage tank with a
16 minimum capacity of 20,000 gallons.

17 IT IS FURTHER ORDERED that Navajo Water Co., Inc. shall use the depreciation rates
18 listed in Table B of Staff's Engineering report.

19 IT IS FURTHER ORDERED that Navajo Water Co., Inc. shall choose any three BMP Tariffs
20 from the BMP Tariffs set forth in Exhibit 1, and shall file the three BMP Tariffs with the
21 Commission's Docket Control as a compliance item in this matter within 30 days.

22 IT IS FURTHER ORDERED that the three BMP Tariffs Navajo Water Co., Inc. chooses to
23 file from the BMP Tariffs set forth in Exhibit 1 are hereby approved.

24 IT IS FURTHER ORDERED that Navajo Water Co., Inc. shall notify its customers, in a form
25 acceptable to Staff, of the BMP tariffs authorized in this proceeding and their effective date by means
26 of either an insert in the next regularly scheduled billing or by a separate mailing, and shall provide
27 copies of the BMP tariffs to any customer upon request.

28 IT IS FURTHER ORDERED that Navajo Water Co., Inc. shall request cost recovery of actual

expenses associated with the implemented BMP Tariffs in its next general rate application.

IT IS FURTHER ORDERED that Navajo Water Co., Inc. shall file annually, as part of its annual report, an affidavit with the Commission's Utilities Division attesting that it is current in paying its property taxes in Arizona.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, JODI JERICH, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____, 2015.

JODI JERICH
EXECUTIVE DIRECTOR

DISSENT _____

DISSENT _____

TJ:ru

1 SERVICE LIST FOR:

NAVAJO WATER CO., INC.

2 DOCKET NO.:

W-03511A-14-0304

3 Jay L. Shapiro
4 SHAPIRO LAW FIRM, PC
5 1819 E. Morten Ave, Ste. 280
6 Phoenix, AZ 85020
7 Attorney for Navajo Water Co., Inc.

8 Robert T. Hardcastle
9 Brooke Utilities, Inc.
10 PO BOX 82218
11 Bakersfield, CA 93380

12 Janice Alward, Chief Counsel
13 Legal Division
14 ARIZONA CORPORATION COMMISSION
15 1200 West Washington Street
16 Phoenix, AZ 85007

17 Steven M. Olea, Director
18 Utilities Division
19 ARIZONA CORPORATION COMMISSION
20 1200 West Washington Street
21 Phoenix, AZ 85007

EXHIBIT 1

Company: _____

Decision No.: _____

Phone: _____

Effective Date: _____

Public Education Program Tariff**PURPOSE**

A program for the Company to provide free written information on water conservation measures to its customers and to remind them of the importance of conserving water (Required Public Education Program).

REQUIREMENTS

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission and were adapted from the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. The Company shall provide two newsletters to each customer; one to be provided in the spring, the other in the fall. The goal of the letters is to provide timely information to customers in preparation of the hot summer months, and the cold winter months, in regards to their water uses. The Company shall remind customers of the importance of water conservation measures and inform them of the information available from the Company.
2. Information in the newsletters shall include water saving tips, home preparation recommendations for water systems/pipes, landscape maintenance issues for summer and winter, water cistern maintenance reminders and additional pertinent topics. Where practical, the Company shall make this information available in digital format which can be e-mailed to customers upon request or posted on the Company's website.
3. Communication channels shall include one or more of the following: water bill inserts, messages on water bills, Company web page, post cards, e-mails and special mailings of print pieces, whichever is the most cost-effective and appropriate for the subject at hand.
4. Free written water conservation materials shall be available in the Company's business office and the Company shall send information to customers on request.
5. The Company may distribute water conservation information at other locations such as libraries, chambers of commerce, community events, etc., as well.
6. The Company shall keep a record of the following information and make it available to the Commission upon request.
 - a. A description of each communication channel (i.e., the way messages will be provided) and the number of times it has been used.
 - b. The number of customers reached (or an estimate).
 - c. A description of the written water conservation material provided free to customers.

Company: _____

Decision No.: _____

Phone: _____

Effective Date: _____

Customer High Water Use Inquiry Resolution Tariff – BMP 3.6**PURPOSE**

A program for the Company to assist its customers with their high water-use inquiries and complaints (Modified Non-Per Capita Conservation Program BMP Category 3: Outreach Services 3.6: Customer High Water Use Inquiry Resolution).

REQUIREMENTS

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission and were adapted from the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. The Company shall handle high water use inquiries as calls are received.
2. Calls shall be taken by a customer service representative who has been trained on typical causes of high water consumption as well as leak detection procedures that customers can perform themselves.
3. Upon request by the customer or when the Company determines it is warranted, a trained Field Technician shall be sent to the customer's residence to conduct a leak detection inspection and provide the customer with water conservation measures. The leak detection inspection may consist of a meter read check for flow verification. If the on-site inspection is requested by the customer, the Commission approved meter re-read tariff fee shall apply.
4. The Company shall follow up in some way on every customer inquiry or complaint and keep a record of inquiries and follow-up activities.

Company: _____

Decision No.: _____

Phone: _____ Effective Date: _____

Customer High Water Use Notification Tariff – BMP 3.7**PURPOSE**

A program for the Company to monitor and notify customers when water use seems to be abnormally high and provide information that could benefit those customers and promote water conservation (Modified Non-Per Capita Conservation Program BMP Category 3: Outreach Services Program 3.7: Customer High Water Use Notification).

REQUIREMENTS

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission and were adapted from the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. The Company shall track water usage for each customer and notify the customer if water use seems excessive for that particular billing for that time of the year.
2. The Company shall identify customers with high consumption and investigate each instance to determine the possible cause.
3. The Company shall contact the high water use customers via telephone, email, by mail or in person. The Company shall contact the customer as soon as practical in order to minimize the possible loss of water. The customer will not be required to do anything to receive this notification.
4. In the notification the Company shall explain some of the most common water usage problems and common solutions and points of contact for dealing with the issues.
5. In the notification, the customer will be reminded of at least the following water-saving precautions:
 - a. Check for leaks, running toilets, or valves or flappers that need to be replaced.
 - b. Check landscape watering system valves periodically for leaks and keep sprinkler heads in good shape.
 - c. Adjust sprinklers so only the vegetation is watered and not the house, sidewalk, or street, etc.
 - d. Continue water conservation efforts with any pools such as installing covers on pools and spas and checking for leaks around pumps.
6. In the notification, the customer will also be reminded of at least the following ordinary life events that can cause a spike in water usage:
 - a. More people in the home than usual taking baths and showers.
 - b. Doing more loads of laundry than usual.
 - c. Doing a landscape project or starting a new lawn.
 - d. Washing vehicles more often than usual.
7. The Company shall provide water conservation information that could benefit the customer, such as, but not limited to, audit programs, publications, and rebate programs.
8. The Company shall assist the customer in a self-water audit and assist the customer in determining what might be causing the high water usage as well as supply

Company: _____

Decision No.: _____

Phone: _____ Effective Date: _____

customer with information regarding water conservation and landscape watering guidelines. As part of the water audit the Company shall confirm the accuracy of the customer meter if requested to do so by the customer (applicable meter testing fees shall apply).

9. The type of notification, the timing of the notification (i.e., how long after high water use was discovered by the Company), and the criteria used for determining which customers are notified shall be recorded and made available to the Commission upon request.

Company: _____

Decision No.: _____

Phone: _____

Effective Date: _____

Water Waste Investigations and Information Tariff – BMP 3.8**PURPOSE**

A program for the Company to assist customers with water waste complaints and provide customers with information designed to improve water use efficiency (Modified Non-Per Capita Conservation Program BMP Category 3: Outreach Services 3.8: Water Waste Investigations and Information).

REQUIREMENTS

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission specifically R14-2-403 and R14-2-410 and were adapted from the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. The Company shall handle water waste complaints as calls are received.
2. Calls shall be taken by a customer service representative who has been trained to determine the type of water waste and to determine if it may be attributed to a leak or broken water line.
3. The Company shall follow up on every water waste complaint.
4. Upon request by the customer or when the Company determines it is warranted, a trained Field Technician shall be sent to investigate further and notify the responsible party of the waste and offer assistance and information to prevent waste in the future.
5. A letter of enforcement will be issued to customers with water running beyond the curb and/or off the customers property due to such things as, but not limited to, backwashing of pools, broken sprinkler heads, and over watering of lawns beyond the saturation point.
6. The same procedures outlined above in item #4 will be followed in the event of a second violation. Termination of service may result in the event of the third violation within a 12 month period. In the event of a third violation the customer's service may be terminated per Arizona Administrative Code R14-2-410C, R14-2-410D and R14-2-410E (applicable service reconnection fees shall apply).
7. The Company shall record each account and each instance noted for water waste, the action taken and any follow-up activities.
8. Subject to the provisions of this tariff, compliance with the water waste restriction will be a condition of service.
9. The Company shall provide to its customers a complete copy of this tariff and all attachments upon request and to each new customer. The customer shall abide by the water waste restriction.
10. If a customer believes he/she has been disconnected in error, the customer may contact the Commission's Consumer Services Section at 1-800-222-7000 to initiate an investigation.

Company: _____

Decision No.: _____

Phone: _____

Effective Date: _____

WATER SYSTEM TAMPERING TARIFF – BMP 5.2**PURPOSE**

The purpose of this tariff is to promote the conservation of groundwater by enabling the Company to bring an action for damages or to enjoin any activity against a person who tampers with the water system.

REQUIREMENTS:

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission, specifically Arizona Administrative Code ("AAC") R14-2-410 and the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. In support of the Company's water conservation goals, the Company may bring an action for damages or to enjoin any activity against a person who: (1) makes a connection or reconnection with property owned or used by the Company to provide utility service without the Company's authorization or consent; (2) prevents a Company meter or other device used to determine the charge for utility services from accurately performing its measuring function; (3) tampers with property owned or used by the Company; or (4) uses or receives the Company's services without the authorization or consent of the Company and knows or has reason to know of the unlawful diversion, tampering or connection. If the Company's action is successful, the Company may recover as damages three times the amount of actual damages.
2. Compliance with the provisions of this tariff will be a condition of service.
3. The Company shall provide to all its customers, upon request, a complete copy of this tariff and AAC R14-2-410. The customers shall follow and abide by this tariff.
4. If a customer is connected to the Company water system and the Company discovers that the customer has taken any of the actions listed in No. 1 above, the Company may terminate service per AAC R14-2-410.
5. If a customer believes he/she has been disconnected in error, the customer may contact the Commission's Consumer Services Section at 1-800-222-7000 to initiate an investigation.